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# **Foundations of a revisited concept of perfect competition**

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## FOUNDATIONS OF A REVISITED CONCEPT OF PERFECT COMPETITION

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**Résumé. Eléments pour un concept rénové de la concurrence parfait.** L'article fait une analyse générale des principales conditions traditionnelles de la concurrence parfait, rapportée aussi à la réalité économique contemporaine que aux modèles de la concurrence imparfaite. Lorsque certain de cette conditions ne sont pas exclusifs ou indispensables pour la "perfection" de la concurrence, ils est possible et justifié d'offre une nouvelle "définition" – plus pratique – de la concurrence parfait. Une concurrence effective et efficace, réelle et ne plussiez pas prépondérante théorique. Une concurrence caractérisé par un nombre relatif élevé des participants (mais pas infinie), accès égal aux informations (et ne pas une information parfait et absolu), la répartition des ressources exclusivement par l'action des lois économique, la liberté d'entrer sur marché et des échanges.

Competition is one of the most controversial problems in Economics. It obvious represents an essential part of economic life. Competing for the efficient exploitation of resources and the production of new means to satisfy individual and collective needs at lower costs and higher quality has contributed greatly to the improvement of general well-being [4; p.xi].

Beyond economic life, competition is also one of the fundamental sources of mobilization and creativity in several fields of human life like: political arena, cultural and artistic life, or sports. Democracy - itself – is based on both cooperation and competition [4; p.xi-xii]. Competition is not as an exclusive characteristic of economic life, but a general characteristic of humankind, of human nature.

No concept in economics - or elsewhere – is ever defined fully, in the sense that its meaning under every circumstance is clear and unanimously accepted by all scientists. Concept of competition is not an exception. Especially, if we took into consideration the fact that a notion like "competition" entered in economic languages from common speak and it is "shared" with the whole population [3; p.1].

For a long period it has no particular meaning in economics. The common sense of (free) rivalry between two (or more) people was the only understanding of economic competition too. The classical view of competition finds his basis into the Chapter 7 of Book 2 of the famous Adam Smith's "Wealth of Nations". Even if it was one of the most used notions in economic literature, the concept of competition did not begin to receive an explicit and systematic attention in the main stream of economics until the last third of 19<sup>th</sup> century. Till than his treats was - obvious – an intuitive one and only a sufficient large number of firms was enough to competition

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works. The perfect competition “model” was more the result of the Neoclassical Schools approaches.

The main ideas developed ever since regarding aspects such: rivalry as general sense of competition is a rivalry into economic fields and competition has always economic objectives. Competition is a way of thinking, understanding and conduct entire economic life and activity as well as a state of being. It exists and “works” only in relation with economic freedom: we can talk about competition in the full sense of the term only from the moment in which market economy appears and only related to market – all other references to some types of competition before that is a reference to a limited competition. Competition could be and it was seen also like a contest, a race between equal or unequal economic subjects as well as a game, a game with a set of players (and a set of non-players), with rules, with random processes and of course with winners and losers. Competition could also mean economic confrontation, struggle, conflict and even war. In real economic life, competition has been equated with the act or process of defeating (and sometimes - destroying) rivals.

Today, competition no longer describes only a mode of functioning of a particular market or economy. To be competitive has ceased to be a means to an end: competitiveness has acquired the status of universal credo, an ideology. Competitiveness has become the primary short and medium run goal of the firms, whereas profitability remains just a long run goal [4; p.x].

Competition was analysed by three approaches: as a market structure (in which the number of firms acting on the market represents the central defining element), as an economic process or mechanism and as market strategies and policies of the firms. The first approach was dominant until the end of the previous century, but clearly has its limits and also it has been full of confusions, especially by “equated” competition and market. The basic conditions of contemporary theories on competition accept its existence (nearly) independent from the number of rivals.

Even if perfect competition model is an important instrument for analyzing and explaining the way in which market is functioning, lately it was more and more the object of an increasing criticism. Basically we have in mind two approaches:

a) reality versus theoretical market model - in a double sense: first, by the development of a theory and theoretical analysis of perfect competition which get (step by step) far away from real market, especially by imposed of new and new restrictions and conditions, and on the other hand, from the evolution of real economic life - changes which did not find a proper place into the model;

(b) necessity and reality of “rethinking” and “re-defining” classical concept of competition. The consequence was an extension of the situations in which competition exist, new type of competition considered and new techniques, instruments and courses of action.

More and more, imperfect competition models replaced perfect competition approaches in modern analyses. Perfect competition is nowadays considered - in many ways – only a theoretical framework, with no connection (anymore) with real life. In our opinion, *it has not and must not have an exclusive theoretical existence*. In some way, with several specifications, it could be found in real economic life. What it must take into considerations, concerning - at least – the following issues:

- Atomically structure of market must not be understood as absolute (in the infinite sense of Cournot, which is a too severe condition). The number of sellers and buyers is not a sufficient condition and even a necessary one [see Robinson] [2]. More important is not the size issue but the market power and monopoly power. The number of firms must be analysed related to the absence of (significant) monopoly power.

- A more accent on the competitive behavior (which generally implies individual actions and in all cases independent decisions).

- The full conditions of contestable markets theory are – in our opinion – sufficient for the existence of a quasi-perfect competitive environment.

- Perfect information means not perfect knowledge for all participants but only complete and equal access for all.

- Uncertainty as a general (and equal for all economic operators) rule. The future is unknown. So, perfect information is any way an unrealistic supposition in all and every circumstances.

We consider that product homogeneity is not a sine-qua-non condition for perfect competition. Physical differentiation is not a necessary condition for market imperfection. Nor a sufficient one. And “perfect” homogeneity really never exists. Product differentiation is a way to “think” and “make” competition. Far from be an “imperfection”, the degree of product differentiation could be an argument in supporting a perfect competition.

All this could represent a ***starting point in rethinking and “re-defining” perfect competition***, in developed of a new concept of (or for) perfect competition, what we can name a *quasi-perfect competition* or *workable perfect competition*. In some ideas similar to what Prof. Stigler named “market competition” [3, p.14-17].

For me, its basic characteristics are referring to:

- A sufficient large number of economic operators (on the both sides of the market) as any individual action have no effect on market price (equilibrium)

- Equally access to information for all participants

- Free entry

- Resources allocated exclusively on economic basis

- Completely economic freedom, including free changes.

Those conditions are sufficient for an effective (real and efficient) competition and for a typical competitive behavior of economic operators. Such competition could exist in many situations which would represent various “forms” of a perfect competition. In this respect monopolistic competition (differentiated product and large number of firms) could be seen as one of these forms.

A global appreciation of the competition “level” in a particular market implies the evaluation of several elements, especially on the way in which are realized the general or specific defining conditions of competition. The way in which competition works is important in foundation of the form and “degree” of a social intervention. In our opinion is not possible to measure and appreciate competition by a unique index or criteria because of its complexity. It must be taken into consideration different aspects of the context, background and conditions in which competition took place at a specific time in a market. Such a general approach implies the analyses of several aspects as: the existence of minimal requirements and conditions for competition – as they are seen by modern theories; market structure and its evolution, expressed

by concentration index/ratio as well as by economic and monopoly power; dominant competitive mechanism and techniques (price competition or non-price competition); efficiency of existing competitive mechanism.

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*Revisited text*

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